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Message Text

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AGRE-00 /143 W
----------000928 021849Z /43
R 021800Z MAY 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 8206
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
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AMEMBASSY TOKYO
AMCONSUL FRANKFURT

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USEEC ALSO FOR EMBASSY, USOECD ALSO FOR EMBASSY

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAG: ECON, EFIN, GW
SUBJECT: FINANCIAL DEVELOPMENTS IN GERMANY
(APRIL 25-MAY 2)

REF: BONN 7715, BONN 4624, BONN 5529

1. SUBJECTS COVERED: MONEY SUPPLY (TABLE); PRESS
REACTION TO INTERIM COMMITTEE MEETING; DEMANDS FOR
TAX CUTS MOUNT; TAX REVENUES CONTINUE TO SOAR;
LAMBSDORFF RULES OUT INVESTMENT PLANNING; BUNDESBANK
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FOREIGN POSITION; BANK LIQUIDITY; FOREIGN EXCHANGE
MARKETS (TABLE); MONEY MARKETS (TABLE); SALE OF
2-YEAR FEDERAL TREASURY NOTES; BOND MARKET (TABLE);
ECONOMIC INDICATORS PUBLISHED THIS WEEK (TABLE).

2. MONEY SUPPLY:
IN MARCH, BOTH ON A SEASONALLY ADJUSTED AND NON-

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ADJUSTED BASIS, MONETARY EXPANSION SLOWED DOWN CONSIDERABLY. THE INDIVIDUAL MONETARY AGGREGATES DEVELOPED AS FOLLOWS (FOR DEVELOPMENTS OF CENTRAL BANK MOENY SEE BONN 7715; CHANGES IN DM BILLION, QUARTERLY DATA ARE MONTHLY AVERAGES):

	SEASONALLY ADJUSTED					
	1977		1978			
	3RD Q	4TH Q	1ST Q.	JAN.	FEB.	MARCH
M1	2.2	0.6	4.3	10.8	1.6	0.6
M2	3.2	3.5	1.2	4.1	0.5	-0.9
M3	6.8	5.1	2.6	5.7	1.8	0.2

	SEASONALLY UNADJUSTED					
M1	0.9	5.0	-1.3	-6.2	1.2	1.1
M2	1.9	11.1	-7.0	-16.2	0.2	-4.9
M3	4.8	14.9	-5.8	-11.8	0.7	-6.4

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IN MARCH THE INDIVIDUAL COMPONENTS OF THE MONEY SUPPLY DEVELOPED AS FOLLOWS: (SEASONALLY NON-ADJUSTED, CHANGES IN DM BILLION):

	FEBRUARY L978	FEBRUARY L977	MARCH 1978
I. LENDING TO DOMESTIC NON-BANKS	5.5	8.4	8.2
FROM BUNDESBANK	0.1	-0.1	0.0
FROM COMMERCIAL BANKS	5.4	8.6	8.2
TO PUBLIC SECTOR	0.8	2.5	0.7
TO PRIVATE SECTOR	4.6	6.1	7.4

II. NET EXTERNAL POSITION OF BUNDESBANK AND COMMERCIAL BANKS	2.5	1.4	0.4
III. LONG-TERM BANK DEPOSITS AND OUTSTANDING BANK BONDS (1)	5.5	3.8	4.9
IV. OFFICIAL ASSETS HELD AT CENTRAL BANK	2.9	5.1	3.4
V. OTHER	-1.1	4.4	6.7
VI. M3 (2) (EQUALS I PLUS II MINUS III MINUS IV MINUS V)	0.7	-3.5	-6.4
VII. M2 (M3 MINUS SAVINGS DEPOSITS)	0.2	-2.3	-4.9
VIII.M1 (M2 MINUS TIME DEPOSITS)	1.2	0.3	1.1

(1) EXCLUDING SIGHT DEPOSITS, TIME DEPOSITS WITH MATURITIES UP TO 4 YEARS, AND SAVINGS DEPOSITS WITH 3-MONTH PERIOD OF NOTICE, AND BONDS HELD BY BANKS.
(2) CURRENCY IN CIRCULATION, SIGHT DEPOSITS, TIME DEPOSITS WITH MATURITIES UP TO 4 YEARS AND SAVINGS DEPOSITS WITH 3-MONTH PERIOD OF NOTICE.

3. PRESS REACTION TO INTERIM COMMITTEE MEETING:

THE INTERIM COMMITTEE MEETING HAS NOT AS YET RESULTED IN MAJOR EDITORIAL COMMENT IN THE GERMAN PRESS. WHAT HAS BEEN WRITTEN EMPHASIZES THE RATHER HEAVY CRITICISM DIRECTED AT JAPANESE AND GERMAN ECONOMIC POLICY AND

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FINANCE MINISTER MATTHOEFER'S DEFENSE OF GERMAN POLICY.
SEVERAL ARTICLES GAVE MATTHOEFER HIGH MARKS FOR HIS
PERFORMANCE IN MEXICO CITY.
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4. DEMANDS FOR TAX CUTS MOUNT:
FOLLOWING HINTS OF THE NEED FOR A DOWNWARD REVISION
OF EARLIER 3.5 PERCENT REAL GROWTH FORECASTS FOR L978
(BONN 7715), THE CHAIRMAN OF THE COUNCIL OF ECONOMIC
EXPERTS, OLAF SIEVERT, HAS NOW COME OUT FOR MORE GROWTH-
ORIENTED TAX POLICIES. IN THE LONGER RUN, A SHIFT OF
THE TAX BURDEN FROM DIRECT TAXES (SUCH AS INCOME TAXES)
TO INDIRECT TAXES (TVA) IS REQUIRED, HE SAID. MOST
IMPORTANT AT THIS POINT, IN HIS VIEW, IS REFORM OF THE
PERSONAL INCOME TAX SCHEDULE AND TAX RELIEF FOR BUSINESS,
WITH COMPENSATORY TVA INCREASES TO FOLLOW ONLY
SUBSEQUENTLY IN ORDER NOT TO IMPAIR THE STIMULATIVE
IMPACT OF THE FORMER. MEANWHILE, OPPOSITION SPOKES-
MEN HAVE ONCE AGAIN REITERATED EARLIER DEMANDS FOR TAX
RELIEF (BONN 6624). THE CHORUS OF BUSINESS REPRESENT-
ATIVES DEMANDING TAX CUTS (BONN 7715) SEEMS TO BE
GROWING, AS SUGGESTED BY STATEMENTS DURING A RECENT
CONVENTION OF THE BONN INSTITUTE FINANCE AND TAXES.
THE GOVERNMENT HAS SHOWN NO INCLINATION TO YIELD SO
FAR. FINANCE MINISTER MATTHOEFER, WHILE HOLDING OUT

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TO SECSTATE WASHDC 8208
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
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PROSPECTS FOR INTRODUCTION OF A NEW INCOME TAX SCHEDULE IN 1980 HAS ONCE AGAIN RULED OUT ANY CHANGES FOR THIS YEAR. ALSO THE CHANCELLOR IS REPORTED TO HAVE RULED OUT TAX CUTS AT THIS TIME, POINTING OUT THAT PREVIOUS RELIEF HAS NOT YET HAD TIME TO BECOME FULLY EFFECTIVE AND THAT FURTHER TAX CUTS MIGHT RUN COUNTER TO POSSIBLE FUTURE JOB CREATION PROGRAMS. ECONOMICS MINISTER LAMBSDORFF HAS REFERRED TO THE RECENT DISCUSSIONS OF TAX RELIEF AND PUMPPRIMING AS HARMFUL AND LEADING TO BUSINESS RESTRAINT IN ANTI-CIPATION OF ADDITIONAL INCENTIVES, THUS IMPAIRING REVIVAL OF GROWTH.

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5. TAX REVENUES CONTINUE TO SOAR:
THE TREND TOWARD SOARING TAX REVENUES (BONN 5529) CON-TINUED THROUGH MARCH. ACCORDING TO PRELIMINARY STATI-STICS RELEASED BY THE FEDERAL MINISTRY OF FINANCE, TOTAL PUBLIC SECTOR TAX REVENUES IN JANUARY-MARCH 1978 EXCEEDED COMPARABLE 1977 LEVELS BY 1O.1 PERCENT. THIS GROWTH RATE CONTRASTS WITH THE LATE FEBRUARY 1978 OFFICIAL ESTIMATES WHICH PLACED PROBABLE YEAR-OVER-YEAR GROWTH IN 1978 AS A WHOLE AT ONLY 4.1 PERCENT.

6. LAMBSDORFF RULES OUT INVESTMENT PLANNING:
ON APRIL 27, ECONOMICS MINISTER LAMBSDORFF ASSURED THE BUNDESTAG THAT THE GOVERNMENT'S ECONOMIC POLICY WILL CONTINUE TO BE GOVERNED BY FREE MARKET PRINCIPLES AND RULED OUT INTRODUCTION OF INVESTMENT PLANNING. THESE REMARKS WERE MADE IN RESPONSE TO AN OFFICIAL MOTION OF THE OPPOSITION (GROSSE ANFRAGE) PROMPTED BY THE RECENT ECONOMIC POLICY DECISIONS OF THE SPD, PARTICULARLY SPD DEMANDS FOR ESTABLISHMENT OF SPECIAL CORPORATE BODIES TO COPE WITH THE PROBLEMS RESULTING FROM STRUCTURAL CHANGE (PARTICULARLY IN SUCH AREAS AS

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STEEL, SHIPBUILDING AND AIRCRAFT PRODUCTION).

7. BUNDESBANK FOREIGN POSITION:
DURING THE PERIOD APRIL 16-23 THE BUNDESBANK'S NET FOREIGN POSITION DECLINED BY DM O.8 BILLION TO DM 92.2 BILLION. ACCORDING TO THE BUNDESBANK, THE DECLINE MAINLY REFLECTED THE EXCHANGE OF PROCEEDS OF FOREIGN DM BOND ISSUES INTO NON-DEUTSCHE MARK CURRENCIES. FOREIGN EXCHANGE HOLDINGS DECLINED BY DM 719 MILLION AND SDR HOLDINGS BY DM 347 MILLION. AT THE SAME TIME, THE FRG'S IMF GOLD TRANCHE POSITION INCREASED BY DM 347 MILLION. FOREIGN LIABILITIES ROSE BY ABOUT
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DM 8O MILLION.

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8. BANK LIQUIDITY:
DURING THE SAME PERIOD BANK LIQUIDITY DECLINED BY DM O.6 BILLION. THE MAJOR FACTOR REDUCING LIQUIDITY WERE PAYMENTS FOR THE MINOR MID-APRIL TAX DATE WHICH INCREASED FEDERAL GOVERNMENT ASSETS HELD AT THE BUNDES-BANK BY DM 3.3 BILLION (TO DM 5.9 BILLION) AND BUNDES-BANK STATE GOVERNMENT ASSETS BY DM 1.O BILLION (TO DM 7.8 BILLION). OTHER FACTORS, INCLUDING THE ABOVE-MENTIONED DECLINE IN THE BUNDESBANK'S FOREIGN POSI-TION, REDUCED LIQUIDITY FURTHER BY DM 1.3 BILLION. LIQUIDITY WAS INCREASED BY THE USUAL DECLINE IN CURRENCY IN CIRCULATION IN THE THIRD WEEK OF A MONTH (DM 1.8
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BILLION) AND A SUBSTANTIAL DM 3.2 BILLION REDUCTION IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK.

THE BANKS FINANCED THE DECLINE IN LIQUIDITY BY IN-CREASING LOMBARD BORROWINGS BY DM O.4 BILLION AND NORMAL AND SPECIAL REDISCOUNT BORROWINGS BY DM O.1 BILLION EACH.

9. FOREIGN EXCHANGE MARKETS:
DURING THE REPORTING PERIOD, FRANKFURT SPOT AND FORWARD DOLLAR RATES WERE AS FOLLOWS:

	SPOT DOLLARS (IN DM PER $1.--)			FORWARD DOLLARS (IN PCT. PER ANNUM)	
	OPENING	FIXING	CLOSING	ONE-MONTH	THREE-MONTH
APR. 25	2.O76O	2.O795	2.O795	-4.2	-4.1
26	2.O77O	2.O767	2.O815	-3.8	-4.O
27	2.O775	2.O7O9	2.O685	-4.4	-4.2
28	2.O7OO	2.O678	2.O65O	-4.5	-4.4
MAY 1	----------GERMAN HOLIDAY----------				
2	2.O778	2.O74O	N.A.	N.A.	N.A.

1O. MONEY MARKETS:
RELATIVELY TIGHT CONDITIONS CONTINUED ON GERMAN MONEY MARKETS. FOR THE PERIOD FRANKFURT INTERBANK LENDING RATES WERE AS FOLLOWS:

	CALL MONEY	ONE-MONTH	THREE-MONTH
APR. 25	3.5O-3.55	3.55	3.55
26	3.5O-3.55	3.55	3.55

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27 3.5O-3.55 3.55 3.55
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28 3.5O-3.55 3.55 3.55
MAY 1 ----------GERMAN HOLIDAY----------

11. SALE OF 2-YEAR FEDERAL TREASURY NOTES:
THE BUNDESBANK HAS SOLD BY WAY OF TENDER (SEE BONN 7715)
DM 1.5 BILLION OF 2-YEAR TREASURY NOTES. THE NOTES
WERE SOLD ON A DISCOUNT BASIS. THE DISCOUNT RATE WAS
4 PERCENT, THE EFFECTIVE YIELD 4.26 PERCENT. OFFERS
REPORTEDLY AMOUNTED TO DM 2.4 BILLION.

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12. BOND MARKETS:

ON MARKETS FOR DOMESTIC BONDS AND FOREIGN DM BONDS PRICE DECLINES ACCELERATED. THE FINANCIAL PRESS AGAIN ATTRIBUTED THE DECLINE IN PART TO SALES GERMAN BONDS BY FOREIGNERS PROBABLY REFLECTING A SHIFT FROM DM INVESTMENTS INTO U.S. DOLLAR INVESTMENTS. ACCORDING TO THE PRESS, AVERAGE YIELDS OF OUTSTANDING DOMESTIC BONDS BROKEN DOWN BY REMAINING MATURITY WERE AS FOLLOWS:

REMAINING MATURITY
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(YEARS)	1	3	5	7	9	10
APRIL 28	3.85	4.75	5.20	5.65	5.95	6.05
21	3.75	4.65	5.10	5.55	5.90	6.00

AVERAGE YIELDS OF FOREIGN DM BONDS, ACCORDING TO DATA REPORTED BY THE SWISS BANK VONTOBEL INCREASED FROM 6.348 PERCENT ON APRIL 19 TO 6.481 PERCENT ON APRIL 26; A NEW 1978 HIGH AS COMPARED WITH A 1978 LOW OF 6.266 PERCENT. ACCORDING TO THE SAME SOURCE, THE YIELD OF U.S. DOLLAR BONDS, ON THE OTHER HAND, DECLINED FROM 8.625 PERCENT ON APRIL 19 TO 8.610 PERCENT ON APRIL 26.

IN VIEW OF THE WEAKER MARKET CONDITIONS THE COUPON OF THE DM 125 MILLION LOAN OF THE NORSKE INDUSTRIBANK (SEE BONN 7715) WAS INCREASED FROM 5 3/4 PERCENT TO 6 PERCENT (ISSUE PRICE 99 1/2, AVERAGE MATURITY 8 1/2 YEARS). THE DM 100 MILLION LOAN OF THE FRENCH OIL COMPANY ELF-AQUITAINE (SEE BONN 7715) WILL BE OFFERED AT A COUPON OF 5 1/4 PERCENT, AN ISSUE PRICE OF 98 1/4 AND A MAXIMUM MATURITY OF 10 YEARS WITH REPAYMENT TO BEGIN AFTER 7 YEARS. THE JAPANESE SEIYU STORES LTD. PLANS TO OFFER DM 100 MILLION OF CONVERTIBLE BONDS. THE COUPON IS EXPECTED TO BE 3 3/4 PERCENT, THE MATURITY 8 YEARS. THE EUROPEAN COUNCIL INTENDS TO OFFER A DM 100 MILLION LOAN AT A COUPON OF 6 1/8 PERCENT, AN ISSUE PRICE OF 100 AND MAXIMUM MATURITY 10 YEARS WITH REPAY-MENT TO BEGIN AFTER 5 YEARS.

13. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

SEASONALLY ADJUSTED BUNDESBANK DATA

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	DEC	JAN	FEB	MARCH
RETAIL SALES VOLUME				
(1970 EQUALS 100)	124	124	122	--
VOLUME OF TRADE				
(DM BILLION)				
EXPORTS	17.27	17.09	16.84	--
IMPORTS	15.85	15.62	15.23	--
BUILDING PERMITS FOR				
HOUSING UNITS				
(1970 EQUALS 100)	90	88	83	--
LIVING COSTS				
(1970 EQUALS 100)	148.1	148.3	148.8	149.3

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INDUSTRIAL PRODUCER PRICES
(1970 EQUALS 100) 145.7 145.2 144.9 145.1
AGRICULTURAL PRODUCER PRICES
(1970 EQUALS 100) 143.0 141.7 140.5 139.2

NON-SEASONALLY ADJUSTED FIGURES 1/

	JAN	FEB	MARCH	APRIL
CONSUMER PRICES	3.2	3.1	3.1	2.9
IMPORT PRICES 2/	-4.5	-6.4	-7.6	--

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EXPORT PRICES 2/	0.8	0.7	0.3	--

1/ PERCENT CHANGE FROM PREVIOUS YEAR'S LEVEL.
2/ CALCULATED ON THE BASIS OF INDICES REFLECTING THE DEVELOPMENT OF PRICES FOR A GIVEN (1970) BASKET OF GOODS.

ACCORDING TO THE LATEST BUSINESS SURVEY DATA OF THE IFO ECONOMIC RESEARCH INSTITUTE, APPRAISALS OF BUSINESS TRENDS BY FRG MANUFACTURERS CONTINUE PREDOMINANTLY NEGATIVE, AS SHOWN BELOW.

EXCESS OF PESSIMISTIC OVER OPTIMISTIC RESPONDENTS IN PERCENT

SUBJECT OF APPRAISAL	NOV	DEC	JAN	FEB	MARCH
CURRENT BUSINESS SITUATION	22	22	21	23	24
PROSPECTS FOR THE NEXT SIX MONTHS	18	16	9	6	10

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCIAL STABILITY, FINANCIAL DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 02 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780187-0407
Format: TEL
From: BONN
Handling Restrictions: n/a
Image Path:
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Litigation Codes:
Litigation History:
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Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 11
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 78 BONN 7715, 78 BONN 4624, 78 BONN 5529
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 22 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2524754
Secure: OPEN
Status: NATIVE
Subject: FINANCIAL DEVELOPMENTS IN GERMANY (APRIL 25-MAY 2)
TAGS: ECON, EFIN, GE
To: STATE TRSY MULTIPLE
Type: TE
vdkvgwkey: odbc://SAS/SAS.dbo.SAS_Docs/b84cd593-c288-dd11-92da-001cc4696bcc
Review Markings:
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